

HONORABLE JAMES L. ROBART

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

MICROSOFT CORPORATION, a  
Washington corporation,

Plaintiff,

vs.

MOTOROLA, INC., MOTOROLA  
MOBILITY, INC., and GENERAL  
INSTRUMENT CORPORATION.,

Defendants

Case No. 10-1823

**MICROSOFT'S OPPOSITION TO  
DEFENDANTS' *RENEWED* MOTION  
TO DISMISS**

**Noted: Friday, April 1, 2011**

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DEFENDANTS' *RENEWED* MOTION TO  
DISMISS

CASE NO. 10-  
1823

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# TABLE OF CONTENTS

	Page
I. INTRODUCTION .....	1
II. STATEMENT OF RELEVANT FACTS .....	3
A. The Standards Setting Process .....	4
B. Technologies at Issue in this Action .....	5
1. <i>The WLAN/802.11 Wireless Internet Connectivity Standard</i> .....	5
2. <i>H.264 Video Compression Standard</i> .....	5
C. Motorola Voluntarily Participated in Setting the Relevant Standards .....	6
D. Motorola has Breached its Contract with the SDOs and Microsoft by Refusing to Offer Licenses to Microsoft on RAND Terms .....	6
E. Motorola Has Breached Its Contracts by Bringing Patent Infringement Suits Seeking Injunctive Relief against Microsoft .....	7
III. LEGAL ARGUMENT .....	8
A. Relevant Legal Standards .....	8
1. <i>Fed. R. Civ. P. 12(b)(6)</i> .....	8
2. <i>Fed. R. Civ. P. 12(b)(1)</i> .....	9
B. Microsoft's Breach of Contract Claim Should Not Be Dismissed .....	9
1. <i>Microsoft has Stated a Claim for Breach of Contract</i> .....	9
2. <i>Microsoft's Breach of Contract Claim is Ripe for Adjudication</i> ...	13
3. <i>Microsoft is not seeking an Advisory Opinion</i> .....	16
4. <i>Motorola's Subsequent Patent Infringement Actions             Constitute Breaches of Its Contractual Commitments to the             EEE, ITU, and Microsoft</i> .....	18
C. Microsoft's Remaining Claims Should Not Be Dismissed .....	19

MICROSOFT'S OPPOSITION TO  
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1	1.	<i>Microsoft Is Entitled to Plead and Prove Promissory Estoppel</i> ....	19
2	2.	<i>Microsoft Has Validly Pleaded Waiver as a Basis for</i>	
3		<i>Injunctive Relief</i> .....	19
4	3.	<i>Microsoft's Declaratory Judgment Claim May Not Be</i>	
		<i>Dismissed</i> .....	20
5	III.	CONCLUSION .....	23

## TABLE OF AUTHORITIES

	Page
<b>Cases</b>	
<i>Ashcroft v. Iqbal</i> , 129 S. Ct. 1937 (2009).....	8
<i>Badgett v. Sec. State Bank</i> , 116 Wn.2d 563, 807 P.2d 356 (1991).....	15
<i>Broadcom Corp. v. Qualcomm Inc.</i> , 501 F.3d 297 (3d. Cir. 2007).....	9, 14
<i>BrowserCam Inc. v. Gomez, Inc.</i> , No. 08-02959 WHA, 2008 U.S. Dist. LEXIS 82159 (N.D. Cal., Sept. 26, 2008) .....	13
<i>Degenhart v. AIU Holdings, Inc.</i> , No. C10-5172RBL, 2010 U.S. Dist. LEXIS 125524 (W.D. Wash., Nov. 26, 2010) .....	22
<i>Dequillettes v. Moffat</i> , 2004 Wash. App. LEXIS 283 (Mar. 1, 2004).....	18
<i>Ericsson Inc. v. Samsung Electronics Co., Ltd.</i> , No. 2:06-CV-63, 2007 U.S. Dist. LEXIS 29257 (E.D. Tex., April 20, 2007).....	14, 17
<i>ESS Tech., Inc. v. PC-Tel, Inc.</i> , No. C-99-20292 RMW, 2001 U.S. Dist. LEXIS 26348 (N.D. Cal., Nov. 28, 2001).....	14
<i>Farm Crop Energy, Inc. v. Old National Bank of Wash.</i> , 109 Wn.2d 923, 750 P.2d 231 (1988).....	19
<i>Flower v. T.R.A. Industries, Inc.</i> , 127 Wn. App. 13, 111 P.3d 1992 (2005).....	19
<i>W.L. Gore &amp; Assoc., Inc. v. Carlisle Corp.</i> , 529 F.2d 614 (3d Cir. 1976).....	11, 16
<i>Greater Los Angeles Council on Deafness, Inc. v. Zolin</i> , 812 F.2d 1103 (9 <sup>th</sup> Cir. 1987) .....	21

MICROSOFT'S OPPOSITION TO  
DEFENDANTS' RENEWED MOTION TO  
DISMISS - iii

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1		
2	<i>Mike M. Johnson, Inc. v. County of Spokane,</i>	
3	150 Wn.2d 375, 78 P.3d 161 (2003) .....	12
4	<i>Livid Holdings Ltd. v. Salomon Smith Barney, Inc.,</i>	
5	416 F.3d 940 (9 <sup>th</sup> Cir. 2005) .....	8, 20
6	<i>Lopez v. Smith,</i>	
7	203 F.3d 1122 (9 <sup>th</sup> Cir. 2000) .....	8
8	<i>Moore v. Blue Frog Mobile, Inc.,</i>	
9	153 Wn. App. 1, 221 P.3d 913 (2009) .....	13
10	<i>NL Industries v. Kaplan,</i>	
11	792 F.2d 896 (9 <sup>th</sup> Cir. 1986) .....	3
12	<i>Nokia Corp. v. Qualcomm, Inc.,</i>	
13	No. 06-509-JJF, 2006 U.S. Dist. LEXIS 61383 (D. Del., Aug. 29, 2006) .....	17
14	<i>N.W. Indep. Forest Mfrs. v. Dep't of Labor &amp; Indust.,</i>	
15	78 Wn. App. 707, 899 P.2d 6 (1995) .....	9
16	<i>Parks School of Business, Inc. v. Symington,</i>	
17	51 F.3d 1480 (9 <sup>th</sup> Cir. 1995) .....	8
18	<i>Permpoon v. Wells Fargo Bank Nat'l Ass'n,</i>	
19	No. 09-CV-01140-H (BLM), 2009 U.S. Dist. LEXIS 89723	
20	(S.D. Cal., Sept. 29, 2009) .....	23
21	<i>Powell v. McCormack,</i>	
22	395 U.S. 486, 89 S. Ct. 1944 (1969) .....	21
23	<i>Principal Life Insurance Co. v. Robinson,</i>	
24	394 F.3d 665 (9 <sup>th</sup> Cir. 2005) .....	9, 13
25	<i>Research in Motion Limited v. Motorola, Inc.,</i>	
	644 F. Supp. 2d 788 (N.D. Tex. 2008) .....	10
	<i>Scott v. Pasadena Unified Sch. Dist.,</i>	
	306 F.3d 646 (9 <sup>th</sup> Cir. 2002) .....	9, 13

1	<i>Swartz v. KPMG LLP</i> , 476 F.3d 756 (9 <sup>th</sup> Cir. 2007) .....	22
2	<i>VersusLaw, Inc. v. Stoel Rives, L.L.P.</i> ,	
3	127 Wn. App. 309, 111 P.3d 866 (2005) .....	18
4	<i>Wapato Heritage, LLC v. U.S. Dep't of Interior</i> ,	
5	No. cv-08-177-RHW, 2008 WL 5046447 (E.D. Wash., Nov. 21, 2008) .....	12
6	<i>Wi-Lan v. Research in Motion, et al.</i> ,	
7	Case No. 2:08-CV-247-TJW (E.D. Tex. 2008) .....	12
8	<i>Wi-Lan v. Research in Motion, et al.</i> ,	
9	Case No. 10-CV-859-W (CAB), 201 U.S. Dist. Lexis 77776 (S.D. Cal. 2010) .....	12
10	<b>Other Authorities</b>	
11	Federal Rules of Civil Procedure 12(b) .....	7
12	RCW 2.06.040 .....	16
13	RCW 7.24.010 .....	19
14	28 U.S.C.A. § 2201(1) .....	19

## I. INTRODUCTION

This action arises out of Defendants Motorola, Inc., Motorola Mobility, Inc., and General Instrument Corp.'s (collectively "Motorola's") breach of their obligations to provide licenses to their purportedly "essential" patents on reasonable and non-discriminatory ("RAND") terms and conditions. When Motorola chose to (1) take part in the standard setting process for the 802.11 wireless internet and H.264 video compression standards, and (2) declare that it owned patents that were essential or necessary to implement those standards, it became bound to contractual commitments imposed by the Standards Determining Organizations ("SDOs"). Those contractual commitments obligated Motorola to offer licenses to these patents on RAND terms to Microsoft and all other potential licensees. Motorola breached – and continues to breach – its commitments by failing to offer RAND licenses.

Motorola has flagrantly violated its obligation to offer Microsoft a license to these technologies on RAND terms. Instead, Motorola conditioned any such license on a discriminatory and unreasonable royalty. When Microsoft refused Motorola's exorbitant demands, Motorola sued to enjoin Microsoft's alleged use of the patents. Motorola's actions are a clear breach of the obligations it undertook in the standard setting process.

Motorola demanded that Microsoft pay a royalty of 2.25 percent per unit, *based on the price of the end-product* (an Xbox 360, computer, phone, etc.). The royalty rate is high, but, more important, it is based on a value that far exceeds that of the components to which Motorola's patents might apply, much less the value of the allegedly patented features, violating Motorola's commitment to the IEEE, ITU, and their members. For purposes of this motion to dismiss, Microsoft's allegation that the royalty is not reasonable and non-discriminatory must be accepted as true, with all reasonable

1 inferences drawn in Microsoft's favor.

2 Motorola's principal argument seems to be that it is free to make arbitrary,  
3 unreasonable and discriminatory license royalty demands, to try to coerce prospective  
4 licensees into paying all that traffic will bear, and to sue those companies for patent  
5 infringement that resist. All of this, Motorola says, complies with its commitments to the  
6 SDOs and the public because Motorola's unreasonable demands so far have been  
7 unsuccessful. In Motorola's view, it can pursue prospective licensees with demands that  
8 violate its RAND obligations – even to the point of suing them – without giving rise to a  
9 claim for judicial relief.

10 Motorola stands its RAND obligations on their head. It repeatedly argues that it  
11 was somehow incumbent on Microsoft to come forward with a counteroffer that is  
12 consistent with Motorola's RAND obligations. But it is Motorola that is obligated  
13 contractually and otherwise to offer reasonable and non-discriminatory terms.  
14 Microsoft, on the other hand, never entered into a contract to negotiate with Motorola and  
15 so itself had no such contractual obligation susceptible to breach.

16 Motorola's demand for terms far beyond RAND strikes at the heart of the RAND  
17 protocol. Motorola may not secure a negotiating advantage by demanding an outrageous  
18 rate, thereby misusing the power inherent in control over a patent that has been adopted –  
19 following Motorola's active participation – as part of a uniform standard established by  
20 either the ITU or IEEE. The proper response to this kind of abusive practice is not to  
21 succumb to it. It is to stop it.

22 Motorola argues that the Court would be unduly burdened if it were required to  
23 make the ultimate determination of compliance with RAND. But the Court must assume  
24 on this motion that Motorola's demand is far outside the range of RAND rates.



Moreover, the Court is well-equipped to make this determination on summary judgment or at trial, if necessary, using methods of analysis with which the courts are already familiar.<sup>1</sup>

Motorola chose to accept the benefits of molding the standard setting process, and committed to abiding by the standard SDOs' rules. Motorola essentially seeks summary judgment that it has complied with its obligations, somehow creating a duty on Microsoft's part to pare down Motorola's exorbitant demands through negotiations rather than to sue for breach. On this motion, however, Microsoft's allegation that Motorola's demands were exorbitant is deemed to be true – which, indeed, Motorola's negotiation argument effectively concedes. The consequence is that Microsoft's Amended Complaint easily meets the low threshold for defeating this motion, which Microsoft respectfully requests be denied.

## II. STATEMENT OF RELEVANT FACTS

The following facts must be accepted as true with all reasonable inferences drawn in Microsoft's favor. *See NL Industries v. Kaplan*, 792 F.2d 896, 898 (9<sup>th</sup> Cir. 1986).

<sup>1</sup> For example, determining whether Motorola's royalty demands to Microsoft were reasonable and non-discriminatory under applicable precedent may entail, *inter alia*, evaluation of competing technologies under consideration by the relevant standards setting organization, other standards-related licenses proposed/entered into by Motorola and other parties participating in the relevant standard setting organization, and an evaluation of the relative role of the accused technology in the accused products. *See e.g.*, Francois Leveque and Yann Ménière, *Vagueness in RAND Licensing Obligations is Unreasonable for Patent Owners*, CERN Working paper. Available at: <http://ssrn.com/abstract=1030520>; Daniel Swanson and William Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, And Control of Market Power*, 73 Antitrust L.J. 1, 21 (2005). Declaration of Shane P. Cramer in Support of Microsoft's Opposition to Defendants' Renewed Motorola and Motorola Mobility's Motion to Dismiss ("Cramer Dec."), Ex. 1-2.

1 **A. The Standards Setting Process.**

2 Standards play a critical role in fostering development of wireless and video  
3 coding technologies. Microsoft's Amended and Supplemental Complaint (Dkt. No. 53)  
4 ("Complaint"), ¶ 23. Standards facilitate the adoption and advancement of technology  
5 and development of products that can interoperate with one another. *Id.* Companies that  
6 produce products compatible with a standard can design them by referencing only the  
7 standard documentation. They do not have to communicate separately with other  
8 companies with which their products may need to interoperate. *Id.* Instead, they can be  
9 confident that their products will operate with other companies' products manufactured to  
10 the same standard. Consumers can be confident that products from multiple vendors  
11 implementing the standard will work together as intended. *Id.*

12 The standards also confer on patent holders the power of owning a widespread,  
13 essential technology. In order to protect implementers (and consumers) from abuse of  
14 this power by such patent holders even those whose claims have no more than suspect  
15 legitimacy SDOs have adopted stringent rules. The rules, the "IPR policies" of the  
16 SDOs, govern the licensing practices of participants. *Id.*, ¶ 26. They obligate  
17 participants claiming to own relevant patents to offer licenses for those patents to any  
18 implementer of the standard, and to do so on RAND terms. *Id.*, ¶ 27.

19 Such commitments are crucial to developing and benefiting from the standards.  
20 *Id.*, ¶ 26, 28. More fundamentally, these commitments prevent the abuse of the process  
21 by participants who are in a position to not only shape the standard, but also to claim  
22 ownership of that standard. The SDO's rules prohibit a participant that also owns  
23 patented technology from abusing its inordinate power by demanding unreasonable or  
24 discriminatory licensing terms. *Id.*

**B. Technologies at Issue in this Action.**

1. *The WLAN/802.11 Wireless Internet Connectivity Standard.*

Motorola's unlawful licensing demands pertain to patents that it claims are "essential" to a widely practiced standard for wireless Internet connectivity known as "WLAN," "Wi-Fi," and/or "802.11." *Id.*, ¶ 29. WLAN/802.11 enables an electronic device to access the Internet wirelessly at high speeds over short distances. *Id.*, ¶ 30. WLAN is based on a standard developed by the Institute of Electrical and Electronics Engineers ("IEEE"). *Id.*, ¶ 32. As a condition of participating in the standard setting process, Motorola agreed that a

license for a compliant implementation of the standard will be made available to an unrestricted number of applicants on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination.

*Id.*, ¶ 2.

2. *H.264 Video Compression Standard.*

H.264 technologies provide video decoding in such applications as DVD players, videos available for downloading or replay on the Internet, web software, broadcast services, direct-broadcast satellite television services, cable television services, and real-time videoconferencing. *Id.*, ¶ 34. In part under the auspices of the International Telecommunications Union ("ITU"), participants developed H.264 as a standard set of technologies. *Id.*, ¶ 36. As a participant, Motorola declared to the ITU that it was prepared to grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions.<sup>2</sup>

<sup>2</sup> Third Declaration of Norman H. Beamer in Support of Motorola, Inc. and Motorola Mobility, Inc.'s Motion to Dismiss ("Beamer Dec."), Ex. 6, p. 11.

1 **C. Motorola Voluntarily Participated in Setting the Relevant Standards.**

2 Motorola actively participated in the standard setting process for both the WLAN  
3 and H.264 standards, and induced the relevant SDO to include in each standard  
4 technology that is unique to Motorola. *Id.*, ¶¶ 37-54. Microsoft, IEEE, and ITU relied on  
5 Motorola's commitment that it would make licenses available to applicants on RAND  
6 terms for this Motorola-unique technology. *Id.*, ¶¶ 56, 60. IEEE's and ITU's decision to  
7 issue the standards rested upon Motorola's commitment to offer its self-proclaimed  
8 essential technology on RAND terms. *Id.*, ¶¶ 44, 50.

9 **D. Motorola Has Breached Its Contract with the SDOs and Microsoft by**  
10 **Refusing to Offer Licenses to Microsoft on RAND Terms.**

11 In reliance on Motorola's commitments to offer licenses for any patents it claimed  
12 were essential or necessary to implementation of the standards available on RAND terms,  
13 Microsoft began providing WLAN and H.264 capability in its Xbox 360 video game  
14 consoles, Windows 7 operating system, Windows Phone 7, and other fields. *Id.*, ¶ 57.

15 Motorola breached its contracts with these SDO's and Microsoft by demanding  
16 unfair and discriminatory terms for licenses of its identified patents. *Id.*, ¶ 84.

17 By letter dated October 21, 2010, Motorola "offer[ed] to grant Microsoft a  
18 worldwide non-exclusive license under Motorola's portfolio of patents and pending  
19 applications having claims that may be or become Essential Patent Claims (as defined in  
20 section 6.1 of the IEEE bylaws) for compliant implementation of the IEEE 802.11  
21 Standards." Beamer Dec., Ex. 1. Motorola said it would license the patents at a royalty  
22 rate of 2.25 percent per unit, calculated using the price of the end-product (Xbox, PC,  
23 smartphone, etc.), as opposed to the component including the allegedly patented features,  
24 let alone the supposedly patented features, themselves. *Id.*, Ex. 1, 2. These royalty rates

are excessive, discriminatory, and “wholly disproportionate to the royalty rate that its patents should command under any reasonable calculus.” Complaint, ¶¶ 6, 65.

Motorola left the offer open for 20 days, and asked Microsoft to “confirm whether Microsoft accepts this offer.” Beamer Dec., Ex. 1. Motorola did not indicate in the letter that it would consider or negotiate other terms for licensing its portfolio. *Id.*

On October 29, 2010, Motorola sent another letter. On substantially the same terms, it offered to grant Microsoft “a worldwide nonexclusive license under Motorola’s portfolio of patents and pending applications covering the subject matter of ITU-T Recommendation H.264.” Beamer Dec., Ex. 2. Motorola stated that this offer would also be left open for 20 days, and asked Microsoft to “confirm whether Microsoft accepts this offer.” *Id.* Again, Motorola did not state that it would consider other terms. *Id.*

In these letters, Motorola sought to extract unreasonable royalties from Microsoft, discriminatorily choosing as targets Microsoft’s Xbox product line and other multi-function, many-featured products and software, such as Windows 7, Windows Phone 7, and products incorporating Microsoft software. Complaint, ¶ 65.

**E. Motorola Has Breached Its Contracts by Bringing Patent Infringement Suits Seeking Injunctive Relief against Microsoft.**

The day after Microsoft filed its complaint, defendants Motorola Mobility and its wholly-owned subsidiary, General Instrument, filed two patent infringement actions against Microsoft in the Western District of Wisconsin, and later filed a patent infringement action before the ITC.<sup>3</sup> All of the patents at issue in these actions are among those that Motorola claims are necessary or essential to implement the H.264

<sup>3</sup> Motorola also sued Microsoft for patent infringement in the Southern District of Florida and later filed yet another patent infringement action in the Western District of Wisconsin. These cases do not appear to implicate Motorola’s RAND obligations related to the standards in dispute here.

1 and/or 802.11 standards.<sup>4</sup> *Id.*, ¶¶ 73-78. The filing of these actions in lieu of making  
 2 RAND offers to Microsoft constitute additional breaches by Motorola. *Id.*, ¶ 85.

3 As a result of Motorola's various breaches, Microsoft suffered (and will continue  
 4 to suffer) significant injuries to its business and property, including lost profits, lost  
 5 customers and potential customers, loss of goodwill, and lost product image. *Id.*, ¶ 86.

### 6 III. LEGAL ARGUMENT

#### 7 A. Relevant Legal Standards.

##### 8 1. Fed. R. Civ. P. 12(b)(6).

9 In considering a motion to dismiss under Rule 12(b)(6), the court must construe  
 10 the complaint in the light most favorable to the non-moving party. *Livid Holdings Ltd. v.*  
 11 *Salomon Smith Barney, Inc.*, 416 F.3d 940, 946 (9<sup>th</sup> Cir. 2005). The court must accept all  
 12 well-pleaded facts as true and draw all reasonable inferences in favor of the plaintiff.  
 13 *Parks School of Business, Inc. v. Symington*, 51 F.3d 1480, 1484 (9<sup>th</sup> Cir. 1995).

14 "To survive a motion to dismiss, a complaint must contain sufficient factual  
 15 matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft*  
 16 *v. Iqbal*, 129 S. Ct. 1937, 1949 (2009), citing *Bell Atl. Corp. v. Twombly*, 550 U.S. 544,  
 17 570, 127 S. Ct. 1955 (2007). "A claim has facial plausibility when the plaintiff pleads  
 18 factual content that allows the court to draw the reasonable inference that the defendant is  
 19 liable for the misconduct alleged." *Id.* "The plausibility standard is not akin to a  
 20 'probability requirement,' but it asks for more than a sheer possibility that a defendant  
 21 has acted unlawfully." *Id.*<sup>5</sup>

22 \_\_\_\_\_  
 23 <sup>4</sup> In its ITC action, (Case No. 337-TA-752), Motorola expressly bases its infringement allegations on  
 24 Microsoft's compliance with either the H.264 or 802.11 standards for four of the five patents asserted. The  
 25 fifth is asserted against a non-standard implementation used in Microsoft's Xbox controllers.

<sup>5</sup> In the event the court finds that dismissal is warranted, the court should grant the plaintiff leave to amend  
 unless amendment would be futile. *Lopez v. Smith*, 203 F.3d 1122, 1127 (9<sup>th</sup> Cir. 2000).

2. Fed. R. Civ. P. 12(b)(1).

Motorola has also moved to dismiss Microsoft's breach of contract claim as not yet ripe. "The basic rationale of the ripeness doctrine is to prevent courts, through avoidance of premature adjudication, from entangling themselves in abstract disagreements." *Scott v. Pasadena Unified Sch. Dist.*, 306 F.3d 646, 662 (9<sup>th</sup> Cir. 2002) (internal quotation marks omitted). A claim is ripe for adjudication where "there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Principal Life Insurance Co. v. Robinson*, 394 F.3d 665, 669 (9<sup>th</sup> Cir. 2005). This dispute is neither premature nor abstract. Microsoft's claims ripened when Motorola demanded excessive and discriminatory royalties for its allegedly necessary patent claims.

**B. Microsoft's Breach of Contract Claim Should Not Be Dismissed.**

1. Microsoft has Stated a Claim for Breach of Contract.

To state a claim for breach of contract under Washington law, a plaintiff need allege only (1) a valid contract, (2) a breach of a duty arising under that contract, and (3) resulting damage. *N.W. Indep. Forest Mfrs. v. Dep't of Labor & Indust.*, 78 Wn. App. 707, 712, 899 P.2d 6 (1995). Microsoft's complaint does so. Motorola must admit, and has admitted, that it has a valid contract with Microsoft. Motion at 3, n.3; Complaint, ¶¶ 81-82. Microsoft has alleged how Motorola has breached those contracts and has alleged that Microsoft suffered resulting damage. *Id.*, at ¶84; *see also* ¶¶ 64-72. These allegations state a claim for breach of the RAND requirements.

In *Broadcom Corp. v. Qualcomm Inc.*, the Third Circuit analyzed the rationale for requiring that patentees who take part in standard setting offer licenses on RAND terms:

1 Firms may become locked into a standard requiring the use of a  
 2 competitor's patented technology. The patent holder's IPRs, if  
 3 unconstrained, may permit it to demand supracompetitive royalties. It is  
 4 in such circumstances that measures such as FRAND commitments  
 5 become important safeguards against monopoly power.

6 501 F.3d 297, 314 (3d. Cir. 2007). The ABA's Standards Development Patent Policy  
 7 Manual (on which Motorola relies), states:

8 In some cases, a dispute may arise when Implementers attempt to obtain a  
 9 license under a RAND Licensing Commitment and believe that the terms  
 10 (e.g., the royalty rate) offered by the Patent Holder are not reasonable.  
 11 Ultimately, a trier of fact may need to resolve the question as to whether  
 12 or not a license has been offered on RAND terms.

13 American Bar Association, Section on Science & Tech. Law, Committee on Technical  
 14 Standardization, *Standards Development Patent Policy Manual* (2007), p. 58. This is  
 15 precisely the issue presented in this case – “whether or not a license has been offered on  
 16 RAND terms.” As the ABA Manual contemplates, this presents a dispute for resolution  
 17 by a trier of fact.

18 Motorola argues that its actions should be excused because continued negotiation  
 19 might produce a RAND result. In effect, Motorola is arguing that its license demand  
 20 should be ignored or that it was not serious about the demand. But that is not the way  
 21 that Motorola's obligations work under RAND. It cannot haggle, as in a rug bazaar,  
 22 securing whatever it can from each comer. Motorola gave up that right when it  
 23 committed to licensing its patents on RAND terms.

24 Not surprisingly, the courts have recognized these principles – indeed, in one case  
 25 involving Motorola itself. In *Research in Motion Limited v. Motorola, Inc.*, Research in  
 26 Motion (“RIM”) sued Motorola alleging, among other things, that Motorola had breached  
 27 “the commitments Motorola made to IEEE and [another SDO] to license its essential  
 28 patents on FRAND terms.” 644 F. Supp. 2d 788, 791 (N.D. Tex. 2008). Motorola



1 moved to dismiss RIM's complaint, arguing that all RIM had alleged was "that the two  
 2 parties have not yet agreed to FRAND terms," and that "just because the parties have not  
 3 yet settled on FRAND terms does not mean Motorola is unwilling to license the patent on  
 4 FRAND terms." *Id.*, 644 F. Supp. 2d at 797. The court rejected this argument:

5 RIM's complaint alleges that Motorola 'has refused to extend FRAND  
 6 ...licensing terms to RIM for any of Motorola's purported essential  
 7 patents...and has instead demanded of RIM terms that are unfair,  
 8 unreasonable, and on information and belief, discriminatory.' Motorola's  
 9 argument merely contradicts the factual accuracy of this statement. At this  
 10 stage of the case, the court takes RIM's pleadings as true. RIM has  
 11 adequately pled that Motorola did not honor its promise to license on  
 12 FRAND terms. Motorola's contention otherwise is entitled to no weight  
 13 on a Rule 12(b)(6) motion.

14 *Id.* (internal citations omitted). The court's analysis is correct, and applies with equal  
 15 force here.

16 Motorola's conduct – and, indeed, its argument advanced in defense of that  
 17 conduct – is contrary to the fundamental purpose of the royalty requirements of the IEEE.  
 18 Motorola argues that it can make an exorbitant, bad faith demand as the first step in a  
 19 negotiating process—i.e., that it can breach its duty to offer reasonable terms in order to  
 20 gain an edge in any negotiation. This conduct itself abuses the power that Motorola  
 21 obtained by shaping the standards. Demanding an exorbitant royalty from a position of  
 22 enhanced leverage is precisely the behavior that the IEEE rules prohibit. *See W.L. Gore*  
 23 *& Assoc., Inc. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (noting that "[a]  
 24 royalty demand which is so high as to preclude acceptance of a license offer is, after all,  
 25 not appreciably different from a refusal to license upon any terms").

Microsoft responded reasonably and correctly to Motorola's improper tactics.  
 This action is intended to make bad faith demands futile, to secure a declaration that

1 Motorola's conduct is in breach of its obligations, to enjoin such conduct and to recover  
 2 for any resulting damage. Responding to a bad faith demand with a good faith offer  
 3 would encourage further breaches by Motorola through implementing the same strategy it  
 4 is using here and apparently used in *Research in Motion*, 644 F. Supp. 2d at 797.

5 Motorola itself has responded to what it claimed were non-RAND rate demands  
 6 exactly as Microsoft is doing here. See *Wi-Lan v. Research in Motion Corp., et al.*, Case  
 7 No. 2:08-CV-247-TJW (E.D. Tex. 2008). Wi-Lan brought patent infringement claims  
 8 against Motorola (among others). Motorola counterclaimed, alleging that Wi-Lan  
 9 "breached its contractual obligations, including by failing to offer licenses for the  
 10 [802.11-related] patents on [RAND] terms, by seeking to enjoin Motorola from making  
 11 or selling 802.11 compliant products, and through misrepresentation and/or omissions  
 12 regarding its patents and/or patent applications." Cramer Dec., Ex. 3, ¶ 77; see also *Wi-*  
 13 *Lan Inc. v. Research in Motion Corp.*, Case No. 10-cv-859-W (CAB), 2010 U.S. Dist.  
 14 LEXIS 77776, \*3-4 (S.D. Cal. 2010) (describing Motorola's RAND-based counterclaim).

15 In the face of a complaint clearly stating a claim for relief, Motorola raises several  
 16 other fact-based defenses that should be summarily rejected. Motorola asserts that  
 17 Microsoft's complaint should be dismissed because Motorola substantially complied with  
 18 its RAND obligations. On this Motion, the opposite, of course, is assumed to be true  
 19 based on the pleadings. *Mike M. Johnson, Inc. v. County of Spokane*, 150 Wn.2d 375,  
 20 398, 78 P.3d 161 (2003) (recognizing that whether a party has substantially complied  
 21 with contractual requirements is a question of fact). *Wapato Heritage, LLC v. U.S. Dep't*  
 22 *of Interior*, No. cv-08-177-RHW, 2008 WL 5046447 (E.D. Wash., Nov. 21, 2008), cited  
 23 by Motorola, holds likewise. In *Wapato Heritage*, the court granted a defendant's motion  
 24 for summary judgment after weighing the evidence and finding that the plaintiff had not

1 substantially complied with contract requirements for exercising an option to extend a  
 2 tribal lease – i.e., the Court found as fact what Microsoft alleges here. On this Motion  
 3 that allegation is deemed to be true despite Motorola’s conclusory claims that it has  
 4 substantially complied “with any RAND obligations.” *RIM*, 644 F. Supp. 2d at 797.

5 Motorola’s remaining argument is that Microsoft breached an obligation to  
 6 negotiate in good faith with Motorola before filing suit fails for essentially the same  
 7 reason. But in this case, Motorola’s alleged failure to comply with its RAND obligations  
 8 is deemed to be true, so it must likewise be deemed true that no duty on Microsoft to  
 9 negotiate (if there ever was one) could possibly have been triggered. *See, e.g., Moore v.*  
 10 *Blue Frog Mobile, Inc.*, 153 Wn. App. 1, 9-10, 221 P.3d 913 (2009) (a party’s material  
 11 breach of its contract excuses the other party of any obligation to perform). If the facts as  
 12 pled are accepted as true, there was no conceivable obligation on Microsoft to negotiate  
 13 or take other action instead of asserting its legal rights.

14 2. Microsoft’s Breach of Contract Claim is Ripe for Adjudication.

15 The ripeness doctrine requires only that there be a substantial controversy  
 16 between the parties that is immediate and real, as opposed to abstract or hypothetical.  
 17 *Scott*, 306 F.3d 662; *Principal Life*, 394 F.3d at 669. There is nothing abstract or  
 18 hypothetical about Microsoft’s contract claim. A breach with resulting damage satisfies  
 19 any ripeness requirement. *Id.*, 394 F.3d at 671 (finding that dispute was ripe because  
 20 “contract dispute between [the parties] over the critical rent recalculation provision is not  
 21 an abstract or hypothetical disagreement. This is a typical contract dispute under which  
 22 the parties’ interests are clearly adverse, and a decision will affect the value of the  
 23 lease.”); *see BrowserCam Inc. v. Gomez, Inc.*, No. 08-02959, 2008 U.S. Dist. LEXIS  
 24 82159, \*\*18-19 (N.D. Cal., Sept. 26, 2008) (claim for breach of contract was ripe where

1 plaintiff alleged that defendant breached contract and plaintiff was damaged as a result).  
 2 Microsoft has alleged a breach with resulting damage.

3 The need to determine at trial or on motion whether Motorola's offer complied  
 4 with its RAND obligations does not alter the ripeness analysis. Several courts have  
 5 recognized their role in determining whether a party's offer satisfies its RAND  
 6 obligation. *See, e.g., Broadcom Corp.*, 501 F.3d at 314 n.8; *Ericsson Inc. v. Samsung*  
 7 *Electronics Co., Ltd.*, No. 2:06-CV-63, 2007 U.S. Dist. LEXIS 29257 (E.D. Tex. Apr. 20,  
 8 2007); *ESS Tech., Inc., v. PC-Tel, Inc.*, No. C-99-20292, 2001 U.S. Dist. LEXIS 26348  
 9 (N.D. Cal. Nov. 28, 2001). Nor does the Court need a history of negotiations between the  
 10 parties to make this determination. The Court may do so by considering such factors as  
 11 competing technologies at the time the standard was adopted, comparable licenses, and  
 12 the relative importance of the accused features in the accused products in the context of  
 13 alleged innovation and other licensed products. *See Cramer Dec.*, Ex. 1; 2, p. 21.

14 In *In the Matter of Rambus, Inc.*, the FTC found that Rambus violated federal  
 15 antitrust laws by failing to disclose its patent interests to an SDO. It entered a remedy  
 16 order requiring that Rambus license its patents on RAND terms.<sup>6</sup> The FTC calculated the  
 17 reasonable royalty, finding that, in the standards context, a reasonable royalty is the *ex*  
 18 *ante* value of the technology – “the amount that the industry participants would have been  
 19 willing to pay to use a technology over its next best alternative prior to the incorporation  
 20 of the technology into a standard.” *Id.*, at 17 (internal citations omitted). The FTC  
 21 “examin[ed] rates for other comparable licenses in the industry.” *Id.*, at 18. On appeal,  
 22 the Court of Appeals for the District of Columbia overruled the FTC's ruling that

23 <sup>6</sup> Opinion of the Commission on Remedy, *In re Rambus, Inc.*, FTC Docket No. 9302, (Feb. 2, 2007),  
 24 available at <http://www.ftc.gov/os/adjpro/d9302/070205>, *overruled on other grounds by Rambus Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008).

1 Rambus had violated antitrust laws. *Rambus Inc.*, 522 F.3d at 459. However, the FTC's  
 2 analysis of how reasonable royalties in the RAND context could be determined shows  
 3 that the remedy Microsoft is seeking is far from abstract or novel.

4 Motorola committed to the IEEE that its licenses would "be made available to an  
 5 unrestricted number of applicants on a worldwide basis without compensation or under  
 6 reasonable rates, with reasonable terms and conditions that are demonstrably free of any  
 7 unfair discrimination." Complaint, ¶¶ 2-3. Likewise, Motorola declared to the ITU that  
 8 it was "prepared to grant a license to an unrestricted number of applicants on a  
 9 worldwide, non-discriminatory basis and on reasonable terms and conditions." Beamer  
 10 Dec., Ex. 6, p. 11. Implicit in each of these agreements was Motorola's obligation to act  
 11 in good faith. *Badgett v. Sec. State Bank*, 116 Wn.2d 563, 569, 807 P.2d 356 (1991)  
 12 ("There is in every contract an implied duty of good faith and fair dealing."). Yet now  
 13 Motorola appears to argue that its only obligation is to make an offer, no matter how  
 14 unreasonable, regardless of bad faith, and that such a bad faith offer triggers a duty on the  
 15 part of Microsoft either to accede or to start negotiations in an arena defined by the bad  
 16 faith offer. Motion at 10 (arguing that "Motorola's opening offer—no matter how  
 17 unacceptable" cannot create a justifiable controversy ripe for resolution by this Court).

18 Motorola's offer letters are nothing but demands setting forth the conditions on  
 19 which Motorola is willing to "grant Microsoft a worldwide nonexclusive license under  
 20 Motorola's portfolio of patents and pending applications" to certain technologies.  
 21 Beamer Dec., Ex. 1, 2. Both letters specifically state that Motorola would "leave this  
 22 offer open for 20 days," and asked Microsoft to "confirm whether Microsoft accepts the  
 23 offer." *Id.* Nothing in either letter suggested that Motorola was willing to offer licenses  
 24 on RAND terms and conditions. Their import was the opposite. Lest there was any

1 doubt, Motorola sued Microsoft when it failed to accept the exorbitant demands.

2 Motorola has not cited any case law holding a) that Microsoft had a duty to  
3 negotiate in the face of an exorbitant royalty demand such as the one made by Motorola  
4 here or b) that the failure to respond to a bad faith offer defeats ripeness. The IEEE and  
5 ITU policies are to the opposite effect. They require a RAND offer. A breach by  
6 Motorola does not trigger a duty on Microsoft's part; rather, if a duty ever existed, it  
7 excuses any such duty. An exorbitant, discriminatory offer without more is a clear  
8 breach of Motorola's duties and epitomizes the abuse the standards are designed to  
9 prevent. It changes the negotiating playing field—and is obviously designed to do so. In  
10 fact, Motorola admits that such egregious royalty demands are its "standard" approach.

11 This dispute is ripe. This lawsuit is the appropriate response to Motorola's  
12 apparently standard tactic of seeking to use the power conferred by its role in the  
13 standards setting to demand excessive royalties and then negotiate from that improper  
14 position. Microsoft is entitled to start the negotiations from an offer that meets the  
15 RAND requirements.

16 Motorola's attempt to cast the *Research in Motion* and *W.L. Gore* opinions as  
17 support for a bright-line rule requiring Microsoft to accede to Motorola's unreasonable  
18 negotiation tactics before filing suit misconstrues their holdings. The *Research in Motion*  
19 court was not concerned with the extent of the parties' past negotiations. The court,  
20 focusing on RIM's allegation that Motorola's proposed licensing terms were  
21 unreasonable, held that RIM had stated a claim for relief. 644 F. Supp. 2d at 797. In  
22 *W.L. Gore*, the court recognized that making an excessively high royalty demand is  
23 equivalent to a refusal to license. 529 F.2d at 623. A patent-holder with no RAND  
24 obligations may be free to make such unreasonable demands, but, as Microsoft alleges,

1 the same conduct by a participant in standards-based technology is a breach of contract.

2 Motorola had an obligation to offer licenses to its purportedly essential patent  
3 portfolios to Microsoft on RAND terms. It did not do so. There are no future  
4 contingencies upon which Microsoft's claims depend. They are ripe for adjudication.

5 3. Microsoft is not seeking an Advisory Opinion.

6 Determining whether a party has violated its obligation to offer RAND royalty  
7 rates does not require determining whether the patent-holder's claimed patents are  
8 "essential." *Ericsson*, 2007 U.S. Dist. LEXIS 29257 at \*\*4-6; *Nokia Corp. v. Qualcomm,*  
9 *Inc.*, No. 06-509-JJF, 2006 U.S. Dist. LEXIS 61383 (D. Del., Aug. 29, 2006).

10 In *Nokia*, the court remanded to state court a plaintiff's complaint alleging that the  
11 defendant violated its obligation to offer RAND royalty rates because it did not require  
12 determining whether the patents were essential, and thus did not raise substantial federal  
13 issues of patent law. The court found that "resolution of this claim depends on  
14 interpretation of the terms of the licensing agreement, rather than interpretation of the  
15 patents." 2006 U.S. Dist. LEXIS 61383 at \*6. In *Ericsson*, the court granted a motion to  
16 try the parties' dispute over "the appropriate terms of a FRAND license" before trying the  
17 parties' patent disputes. The court, relying on *Nokia*, recognized that a RAND dispute  
18 "standing alone, implicates no substantial question of federal patent law," and that trying  
19 the RAND issues first might "alleviate many of the primary differences" between the  
20 parties. 2007 U.S. Dist. LEXIS 29257 at \*\*6-7.

21 This Court's determination of whether Motorola has violated its obligation to  
22 offer RAND royalty rates is similarly not dependent on whether the underlying patents  
23 are essential. The Court's order will be enforceable just as any other order entered by the  
24



1 Court would be. Motorola's motion should be denied.<sup>7</sup>

2 4. Motorola's Subsequent Patent Infringement Actions Constitute Breaches  
 3 of Its Contractual Commitments to the IEEE, ITU, and Microsoft.

4 Motorola argues that Microsoft has not stated a claim that Motorola's patent  
 5 infringement actions, which seek to enjoin Microsoft from implementing the H.264 and  
 6 802.11 standards, are in breach of Motorola's contract obligations to IEEE, ITU, and  
 7 Microsoft. Motorola's sole supporting argument is that Microsoft's lawsuit is an  
 8 anticipatory breach of contract. This argument suffers from the same fatal flaw as the  
 9 rest of Motorola's arguments: it assumes that Motorola has not breached its contract  
 10 obligations where the opposite has been alleged. The argument simply ignores the  
 11 standard on a motion to dismiss and at best raises the same fact questions as Microsoft's  
 12 claim of breach against Motorola. *VersusLaw, Inc. v. Stoel Rives, L.L.P.*, 127 Wn. App.  
 13 309, 321, 111 P.3d 866 (2005) ("The question of anticipatory repudiation is one of fact  
 14 and can be decided on summary judgment only 'if, taking all evidence in the light most  
 15 favorable to the non-moving party, reasonable minds can reach only one conclusion.'")  
 16 (internal citations omitted). Motorola's anticipatory breach argument is nothing more  
 17 than the mirror image of its argument that it can demand exorbitant, unreasonable terms  
 18 without excusing any duty of Microsoft to negotiate in response to such demands.<sup>8</sup>  
 19 If, as Microsoft has alleged, Motorola has failed to comply with its RAND obligations, its  
 20 filing of patent infringement actions seeking injunctive relief constitutes a further breach

21 <sup>7</sup> Further, Motorola filed a complaint for patent infringement against Microsoft in the Western District of  
 22 Wisconsin, *Motorola Mobility, Inc., et anon. v. Microsoft Corporation*, No. 10-cv-699 (W.D. Wisc.), on  
 23 November 10, 2010 relating to the three of the patents at issue in this action. On February 18, 2011, the  
 Wisconsin Court granted Microsoft's motion to transfer the case to this District. It is currently pending  
 before this Court as Case No. 2:11-cv-00343. Microsoft has filed a motion to dismiss the case with leave  
 for Motorola to file its patent infringement claims as compulsory counterclaims in this action.

24 <sup>8</sup> The Court should disregard Motorola's reliance on *Dequillettes v. Moffat*, 2004 Wash. App. LEXIS 283  
 (Mar. 1, 2004). Unpublished Washington decisions have no precedential value. RCW 2.06.040.



1 of the same contractual commitments. Complaint, ¶¶ 73-78. These allegations suffice to  
 2 state a claim for relief.

3 **C. Microsoft's Remaining Claims Should Not Be Dismissed.**

4 1. Microsoft Is Entitled to Plead and Prove Promissory Estoppel.

5 At this stage of the pleadings, before the Court formally rules on the merits of any  
 6 of Microsoft's claims, Microsoft's promissory estoppel claim is proper even though  
 7 accompanied by a breach of contract claim (Complaint, ¶¶ 88-94). The claim cannot at  
 8 this point be dismissed on the ground that "promissory estoppel applies only when no  
 9 valid contract exists." Motion at 15 (citing Washington cases).

10 Microsoft is entitled to allege, in the alternative, all causes of actions that the  
 11 factual proof may ultimately support. Fed. R. Civ. P. 8(d)(2); 8(d)(3). In *Flower v.*  
 12 *T.R.A. Industries, Inc.*, the court reversed a summary judgment dismissing the plaintiff's  
 13 breach of contract claim, and held the evidence presented issues of fact not only as to that  
 14 claim *but also* his alternative claims of promissory estoppel and negligent  
 15 misrepresentation. 127 Wn. App. 13, 111 P.3d 1192, 1201-1202 (2005). The court held  
 16 all three claims "may be presented at trial." *Id.* Similarly, in *Farm Crop Energy, Inc. v.*  
 17 *Old National Bank of Wash.*, the Washington Supreme Court held the trial court should  
 18 have fully instructed the jury on both alternative claims of breach of a loan agreement  
 19 and promissory estoppel. 109 Wn.2d 923, 750 P.2d 231 (1988). The court explained  
 20 that, even if the jury concluded the defendant was not liable for revoking the loan  
 21 agreement, "the jury could still find that [the plaintiff] changed position in reliance on  
 22 [defendant's statements] and award damages pursuant to a promissory estoppel theory."  
 23 750 P.2d at 932.

24 2. Microsoft Has Validly Pleaded Waiver as a Basis for Injunctive Relief.

Motorola misreads Microsoft's cause of action based on waiver (Complaint, ¶¶ 95-98), arguing that waiver can be a defense only, not a cause of action (Motorola Mot. at 16). However, Microsoft's waiver allegation is a predicate for a claim; it is not advanced as an independent claim. Microsoft alleges waiver as the basis for a claim for injunctive relief. As alleged, Motorola waived any right it might otherwise have to make an opening demand for exorbitant royalties in its declarations to IEEE and to the ITU. Complaint, ¶¶ 96-97. Microsoft alleges that it justifiably relied on this waiver and that, unless the Court enjoins Motorola from demanding the prohibited compensation, Microsoft will be irreparably harmed. *Id.* ¶ 98. Those allegations state a valid claim for injunctive relief, and must be viewed in the light most favorable to Microsoft. *See Livid Holdings, supra*, 416 F.3d at 946.

3. Microsoft's Declaratory Judgment Claim May Not Be Dismissed.

Motorola misconstrues Microsoft's claim for declaratory judgment (Complaint, ¶¶ 99-102), and cites inapposite authorities, in arguing that that claim should be dismissed because it merely seeks a declaration of liability for damages sought in other claims. Motion at 16. First, the claim does not seek a declaration of liability for damages. It seeks a determination that Motorola is wrongfully seeking to withhold a license to its patents except on terms that breach its commitment to the IEEE-SA Standards Board and the ITU. Complaint, ¶ 100.

Second, as explained above with respect to the promissory estoppel claim, at this stage of the pleadings Microsoft may advance alternative theories of relief.

Third, that a claim for declaratory relief "is merely a counterpart of" a party's other causes of action is not a valid objection. Motion at 10. The Declaratory Judgments Act provides that, "[i]n a case of actual controversy . . . any court of the United States . . .

1 may declare the rights and other legal relations of any interested party seeking such  
 2 declaration, *whether or not further relief is or could be sought.*" 28 U.S.C.A. § 2201(1)  
 3 (emphasis added). Rule 57 of the Federal Rules of Civil Procedure similarly states, "[t]he  
 4 existence of another adequate remedy does not preclude a declaratory judgment that is  
 5 otherwise appropriate."<sup>9</sup> Here there are good reasons for the Court to include in the relief  
 6 awarded a declaration that Motorola's conduct was in bad faith and a breach of its  
 7 obligations, and to order the conduct stopped, especially in light of the indications that  
 8 this abusive conduct is standard operating procedure for Motorola.

9 In *Powell v. McCormack*, 395 U.S. 486, 517-18, 89 S. Ct. 1944 (1969) (citations  
 10 omitted), the U.S. Supreme Court held that "[t]he availability of declaratory relief  
 11 depends on whether there is a live dispute between the parties, . . . and a request for  
 12 declaratory relief may be considered independently of whether other forms of relief are  
 13 appropriate." The Court stated that a declaratory judgment can "be used as a predicate to  
 14 further relief, including an injunction." *Id.* at 498-99.

15 Microsoft's claims for injunctive and declaratory relief are highly appropriate  
 16 under the circumstances. In any case, Microsoft is entitled to plead claims for both  
 17 monetary and declaratory relief. The Ninth Circuit has held that declaratory relief must  
 18 be considered even when monetary relief is sought, in part because "declarations can  
 19 serve an important educational function for the public at large as well as for the parties to  
 20 the lawsuit." *Greater Los Angeles Council on Deafness, Inc. v. Zolin*, 812 F.2d 1103,  
 21 1112 (9<sup>th</sup> Cir. 1987), *citing Bilbrey v. Brown*, 738 F.2d 1462, 1471 (9<sup>th</sup> Cir. 1984). In

22  
 23 <sup>9</sup> See also RCW 7.24.010 ("Courts of record within their respective jurisdictions shall have power to  
 24 declare rights, status and other legal relations whether or not further relief is or could be claimed."); Wash.  
 25 Civ. R. 57 ("The existence of another adequate remedy does not preclude a judgment for declaratory relief  
 in cases where it is appropriate.").

1 Zolin, deaf persons challenged a county court's refusal to provide interpreters that would  
 2 enable them to serve as jurors. The Ninth Circuit explained in *Zolin* that where a plaintiff  
 3 is subjected to unlawful conduct, declaratory relief may be considered even if monetary  
 4 relief is ultimately determined to be unavailable. The court added, "[s]uch [declaratory]  
 5 relief might be appropriate as a vindication of plaintiffs' position and as a public  
 6 statement of [such persons'] rights....It may even forestall future litigation." *Id.* at 1113.

7 The Ninth Circuit's reasoning applies here, where many companies other than  
 8 Microsoft are likely to be subjected to Motorola's "standard" approach to royalty  
 9 demands, and where Motorola's position has already been rejected in the *Research in*  
 10 *Motion* case. Declaratory relief is appropriate to set a clear "standard" that demanding  
 11 non-RAND terms in order to tilt the negotiating field is not a permissible tactic. Among  
 12 those who would benefit in the future from such a declaration is Microsoft itself.

13 The two unpublished district court decisions on which Motorola relies (Motion at  
 14 16) do not support dismissal of Microsoft's declaratory relief claim at the pleading stage.  
 15 Motorola cites *Degenhart v. AIU Holdings, Inc.*, No. C10-5172RBL, 2010 U.S. Dist.  
 16 LEXIS 125524 (W.D. Wash., Nov. 26, 2010), where plaintiffs' insurer paid the cost of  
 17 repairs for damage from an auto accident, and plaintiffs then sued to recover the  
 18 diminished value of the vehicle. Plaintiffs sought damages for breach of their insurance  
 19 contract, and also pleaded a claim for declaratory judgment that would describe the  
 20 process by which those breach of contract damages are determined and paid. *Id.* at \*4.  
 21 Judge Leighton stated that the claim "mirrored" the relief sought in the plaintiff's other  
 22 claims, and cited *Swartz v. KPMG LLP*, 476 F.3d 756, 766 (9<sup>th</sup> Cir. 2007) (holding court  
 23 may dismiss a declaratory relief claim that merely "seeks a declaration of defendant's  
 24 liability for damages sought in the plaintiff's other causes of action"). Judge Leighton

1 nevertheless denied the motion to dismiss as premature since it would not alter the course  
2 of the litigation, and denied it without prejudice.

3 In this case, by contrast, Microsoft's declaratory relief claim does not merely seek  
4 a declaration of liability for past damages. Microsoft alleges ongoing wrongful conduct  
5 that threatens imminent and substantial future harm for which declaratory relief may be  
6 the only effective remedy. *See, e.g.*, Complaint, ¶ 86. Microsoft also seeks a declaration  
7 of a royalty that would be consistent with Motorola's commitments. *Id.*, ¶ 9.

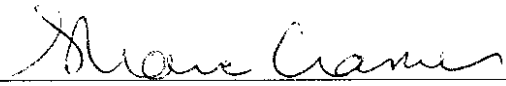
8 Nor does *Permpoon v. Wells Fargo Bank Nat'l Ass'n*, No. 09-CV-01140-H  
9 (BLM), 2009 U.S. Dist. LEXIS 89723 (S.D. Cal., Sept. 29, 2009), support Motorola's  
10 motion. The court, on motions to dismiss, first determined that plaintiff's complaint  
11 failed to state a claim for fraud, breach of fiduciary duty, or breach of the covenant of  
12 good faith and fair dealing, and dismissed each of those claims. *Id.* at \*3-5. Based on  
13 those rulings, the court dismissed plaintiff's claim for declaratory relief because it was  
14 "entirely commensurate with" the relief sought in the other claims that the court had  
15 dismissed on the merits. *Id.* at \*5. The decision would be pertinent here only if the Court  
16 were first to find that Microsoft's factual allegations and causes of action failed to state  
17 any theory of liability. And, as noted above, the declaratory relief Microsoft seeks is not  
18 "entirely commensurate with" its other causes of action.

### 19 III. CONCLUSION

20 Microsoft's complaint states a claim for relief against Motorola and is ripe for  
21 adjudication. For the reasons set forth herein, Microsoft respectfully requests that the  
22 Court deny Motorola's motion to dismiss.

1 DATED this 28<sup>th</sup> day of March, 2011.

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**CERTIFICATE OF SERVICE**

I hereby certify that on March 28, 2011, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following: Philip S. McCune and Lynn M. Engel at Summit Law Group, PLLC.



Linda Bledsoe